

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

June 20, 2000

The Capital Projects and Bond Oversight Committee met on Tuesday, June 20, 2000 at 1:00 p.m., in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senators Tom Buford and Bob Jackson; and Representatives Robert Damron and Paul Marcotte.

Guests testifying before the Committee: Secretary Mike Haydon and Paul Johnson, Revenue Cabinet; Ron Bingham, Governor's Office for Technology; Ken Clevidence and Dr. Joe Ross, University of Kentucky; Tom Denton, Murray State University; Cicely Jaracz Lambert and Garlan Vanhook, Administrative Office of the Courts; Bell County Judge Executive Jennifer Jones; William Gass, Vaughn & Melton Architects; Commissioner Armond Russ and Jim Abbott, Finance and Administration Cabinet; Bill Hintze, Governor's Office for Policy and Management; Gary Grogan, Kentucky Community and Technical College System; Roger Recktenwald, Kentucky Infrastructure Authority; and Tom Howard, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Jack Affeldt, Kevin Mason, Lola Williamson Lyle, Lou Pierce, and Shawn Bowen.

Representative Damron made a motion to approve the minutes of the May 16, 2000 meeting as submitted. The motion was seconded and passed by voice vote.

Chairman Haydon recognized Representative Jim Bruce and welcomed him to the meeting. He then called on Ms. Mary Lynn Collins, Capital Projects and Bond Oversight Committee Staff Administrator, to review various items included in members' folders. Ms. Collins noted several information and correspondence items, including two audit reports recently released by the Auditor of Public Accounts: the Statewide Single Audit of Kentucky and the Audit of Lease Law Compliance for Fiscal Years 1998 and 1999; an update on leased space in Franklin County; and a summary of the feasibility study recently completed on state psychiatric hospitals.

Chairman Haydon introduced Revenue Cabinet Secretary Mike Haydon and Mr. Ron Bingham, Chief Project Manager, Empower Kentucky, to discuss the Revenue Cabinet's new scanning and imaging system known as the Modernized Front End (MFE). He said this

presentation was requested by Committee members at the April meeting in response to news articles about the failure of the Cabinet's MFE project.

Secretary Haydon introduced Mr. Paul Johnson, Chief Financial Officer, Revenue Cabinet. Mr. Bingham said of the \$173 million appropriated for Empower Kentucky projects, \$36 million was set aside for the Revenue Cabinet. In addition to the MFE project, the Revenue Cabinet has several other Empower Kentucky initiatives: a tax gap project; a mail opening and sorting program; a new registration system to simplify communications between the Revenue Cabinet and citizens of the state; and a data warehouse.

Secretary Haydon said the Cabinet receives approximately 4-5 million tax returns annually, and the goal of the MFE was to automate the processing of those tax returns. He said while 95% of the state's revenue comes from tax returns, the other 5% comes from compliance and collections programs. He said in the past, the Cabinet used manual processes to collect data and enter the information that is used by the Cabinet's collections and compliance staff. In an attempt to automate that process, the contract for the MFE was awarded to Scan-Optics in 1998.

Secretary Haydon said in October 1999, the Cabinet began to discuss some of their concerns and some of the project's shortcomings with Scan-Optics. He said the Finance Cabinet asked Scan-Optics to submit to the Cabinet a corrective action plan.

In addition, and in cooperation with the Governor's Office for Technology, they also hired PricewaterhouseCoopers to evaluate the situation.

PricewaterhouseCoopers prepared an executive summary based on their findings. Secretary Haydon said these actions and a series of discussions held with Scan-Optics led to the Revenue Cabinet's request in late May for the Finance Cabinet to terminate the contract, and on June 1, the Finance Cabinet issued a notice of termination to Scan-Optics, effective July 7, 2000. Secretary Haydon said they will continue to work with the company through July 7, in hopes that they can salvage some automation of the major forms. He said it is probably premature at this point to speculate what will happen, but they have diminished their expectations for this project.

Secretary Haydon said they have had to revert to manually processing returns. If by July 7, they are unable to automate the process, they will re-evaluate the original business case presented to the Empower Kentucky group and will develop a long-term plan. Secretary Haydon said of the original \$8 million allocated for this project, approximately \$2.5 million was paid to the contractor, leaving a balance of \$5.5 million. The largest payment made was for equipment the Cabinet has in place and will continue to use.

Representative Marcotte asked how the hardware and software was selected for this project and if other states had automated their tax collection process. Mr. Bingham said

several other states are using the equipment, but in those cases, it was installed by a different implementation and software team. He said this is the first case where one company bid the whole integrated process (hardware, software, and implementation). Just prior to submittal of their bid, Scan-Optics purchased a software company, based in Alabama. Mr. Bingham said the equipment is still good and the Cabinet plans to keep it, but they will need to look at the software and implementation again. Secretary Haydon added that the original vision was sound for their needs at the time, and it was clear the Cabinet was on the cutting edge of technology because there was tremendous interest by other states who visited and reviewed the project.

Representative Marcotte said the Revenue Cabinet and the Finance Cabinet have an excellent record. He said they have been forward-thinking, and he has faith that the two Cabinets can solve this problem.

Senator Buford asked if the state has any liability to pay any of the remainder of the contract since the state will keep the equipment. Secretary Haydon said that is a question better left to the Finance Cabinet since they are actually responsible for procurement. Mr. Bingham said because they have decided to keep the hardware and will need a maintenance contract, they will have a continuing relationship with the company.

In response to another question from Senator Buford, Mr. Bingham said they discovered they were not getting the results they anticipated in September 1999 when the system was supposed to be up and running. He said they immediately put a steering committee in place to watch the company.

Senator Buford asked how revenues were in January compared to the previous year and if any of the problems with the MFE were reported to any legislative committee. Secretary Haydon said he did not know off-hand what the revenue performance was in January. He said there was a loss of approximately \$15,000 in interest because of some delayed deposits that occurred when payments were placed in the wrong accounts. Secretary Haydon said they reported this information to the State Auditor's office.

Senator Buford noted that in January as the budget was being put together, the General Assembly was asked to raise taxes, and at that time the revenues were below what had been projected. He asked if the revenues were really there and if it was a case of inaccurate reporting. Secretary Haydon said the revenues were down in January, and there was a serious question about the performance in the state's major receipt accounts. However, since that time, revenues have rebounded, particularly last month. He reassured the Committee that in January the money was not on hand and simply unreported.

Senator Buford asked if the Appropriations and Revenue (A & R) Committee Chairs knew of the likelihood of a miscalculation and the problems that had taken place in January.

Secretary Haydon said the Administration tried to keep them apprised of the difficulties with this project because it is linked to revenue forecasting.

In response to another question from Senator Buford, Secretary Haydon said in January they knew how much money had been deposited in the bank, but they did not know whether the money was from the sales tax or withholding tax. Secretary Haydon said the A & R Committee Chairs and the budget office were briefed as to the problems with the MFE.

Representative Damron asked if any other any of the other Empower Kentucky projects are experiencing problems similar to the MFE. Mr. Bingham said several projects are experiencing delays. He said for three years they have been working with the Department of Transportation to develop the Kentucky Vehicle Identification System (KVIS).

Representative Damron asked if any other Empower Kentucky projects are experiencing problems. Mr. Bingham said they did experience some problems with the Management and Administrative Reporting System (MARS). He said a lesson learned from implementing MARS was that large projects should be brought on-line in phases instead of all at once. He said MARS is effective now, and the program has had several more software releases. The system is not complete, there are two more parts: one is on schedule and the other is a month behind schedule.

Representative Damron said at one time the Auditor of Public Accounts had discussed the possibility of automating the accounting systems of county governments. He asked if this project could possibly use Empower Kentucky moneys. Mr. Bingham said this was a possibility, but he has not discussed it with the Auditor. He said they are discussing automating the county clerks' offices under KVIS, which would cost approximately \$2.8 million.

Chairman Haydon asked what had been learned from the problems associated with the MFE system. Mr. Bingham said in the future they would be more cautious contracting with a new business or with one that had recently acquired another business. Secretary Haydon added that one of the difficulties they had with implementing the MFE was attempting to completely overhaul the software system, retrain the workers, and write software while the Cabinet was in the process of doing its daily collections and ensuring there was no interruption in those revenues.

Senator Jackson said PricewaterhouseCoopers made a number of recommendations relating to the MFE. He asked if the Cabinet will use those recommendations as they go forward with this project. Secretary Haydon said PricewaterhouseCoopers' recommendations were made during a crisis situation, and even though most of their recommendations are accurate and worthy of implementation, the report is not a detailed, comprehensive report. Secretary Haydon said to some extent they are implementing those

recommendations. However, there would need to be a more thorough review before the recommendations relating to technical design are implemented.

Chairman Haydon said this agenda item did not require action by the Committee.

Chairman Haydon then introduced Mr. Ken Clevidence, Director, University of Kentucky Capital Construction Division, to discuss three projects.

Mr. Clevidence introduced Dr. Joe Ross, University of Kentucky (UK) College of Agriculture. Mr. Clevidence first reported on the construction of the Swine Development and Training Center. He said a federal grant of \$870,500 will be matched with an equivalent balance from the UK College of Agriculture for a total scope of \$1,741,000.

Senator Buford made a motion to approve the Swine Development and Training Center project. The motion was seconded by Representative Damron and passed by voice vote.

Mr. Clevidence next reported a \$3 million privately funded scope increase for the Crisp Building Replacement project on the campus of the Paducah Community College. He said this project was authorized by the 1998 General Assembly at a scope of \$2.2 million. The increased scope will permit inclusion of the Challenger Space Program in the new facility.

Senator Jackson made a motion to approve the \$3 million scope increase for the Crisp Building Replacement project. The motion was seconded by Senator Buford and passed by voice vote. The revised project scope is \$5,200,000.

Mr. Clevidence reported the University has renewed a lease (PR-8068) with Enterprise Business Center (owned by James Milner Sr. and Enterprise Trust, William Craig Turner, Trustee). The lease will have an annual cost of \$197,125 (30% increase) and is for a one-year term. Mr. Clevidence then reported on a new lease (PR-8211) with an annual cost of \$196,020. The property is owned by the Webb Companies and the lease has a term of five years. Both leases are for Lexington Community College (LCC).

Senator Buford made a motion to approve the two UK leases. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon then introduced Mr. Tom Denton, Vice President for Administrative Services, MuSU, to discuss a project modification for the Development and Alumni Affairs Building Renovation project.

Mr. Denton said this project involved the renovation of one-half of a 12,000 square foot building, known as the Church of Christ Building, at a scope of \$750,000. He said after

the design phase, the architect notified the University that the estimated cost would be beyond the authorized project scope. Due to the age of the building, the architect thought the building would need new wiring and a new HVAC system. In addition, an elevator was required. Mr. Denton said the University now wishes to construct a new building on other University-owned property.

Mr. Denton said the building will house office space for Development and Alumni Affairs staff, provide meeting and conference space for alumni groups, and serve as a welcome center to the campus. The new two-story building would be approximately 5,400 square feet and the project scope will not change.

In response to questions from Senator Buford, Mr. Denton said the Church of Christ Building is at least 40 years old. He said the office space on one floor of the building will continue to be used for a while, but the University will have to decide whether to raze the building.

Chairman Haydon said no action was required for this project.

Chairman Haydon next called on Ms. Cicely Jaracz Lambert, Director of the Administrative Office of the Courts (AOC) and Mr. Garlan Vanhook, AOC General Manager for Facilities, to present a project report for a cost overrun on the Bell County Court Facility project.

Ms. Lambert introduced Mr. Vanhook, Bell County Judge Executive Jennifer Jones, and Mr. William Gass, from Vaughn & Melton Architects.

Mr. Vanhook discussed the Bell County Courthouse project, authorized by the 1998 General Assembly at a scope of \$6,393,200. He said the construction bid for the project came in over budget and AOC has authorized the use of the Court Facility Use Allowance Contingency Fund to increase the annual use allowance by 15% (\$53,715). AOC also authorized extending bond financing from 20 to 27 years. Mr. Vanhook explained that the project was originally planned as a renovation and addition to the existing courthouse with 70% court occupancy, but a decision was made later to build a new building with 100% court occupancy.

In response to a question by Representative Marcotte, Mr. Gass said there were three bidders.

Chairman Haydon said final approval of both the cost overrun and the bond extension has already been given by AOC and no further action is required. He said however, pursuant to House Bill 734, future cost overruns as well as bond extensions in excess of 25 years, will require prior review by the Committee.

Chairman Haydon next introduced Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to discuss six projects submitted by the Finance and Administration Cabinet.

Mr. Hintze first reported a \$93,200 allocation from the Capital Construction and Equipment Purchase Contingency Account for the White Hall State Historic Site in Madison County. The contingency allocation will be used to fund a roof repair project which relates to the authorized HVAC and lighting project at Whitehall.

Representative Damron asked why money for this project was taken out of the Contingency Fund instead of the Parks Capital Maintenance and Renovation Fund or the Statewide Deferred Maintenance Fund. Mr. Hintze said they could have accessed either source of funds, but in this case they elected to utilize the usual source for a scope increase on a line-item (authorized) project, which is the Contingency Fund. He said they could have used the Parks Capital Maintenance and Renovation Fund, but they do not like to co-mingle those dollars with a line-item project. Mr. Hintze added that the Department of Parks plans to use a large portion of the money in the Parks Capital Maintenance and Renovation Fund to fund a project for Barren River State Park.

Representative Damron said it would make more sense to access the Parks Capital Maintenance and Renovation Fund first because that Fund cannot be utilized by any other agency in the state, while the Contingency Fund can. He said the Contingency Fund may be under pressure in the coming months to fund cost overruns on projects authorized by the 1998 and 2000 sessions. Mr. Hintze said they will consider this the next time there is a cost overrun. He added that when the Parks Capital Maintenance and Renovation Fund was created in 1994, it was created to supplement the existing funds the Department of Parks was receiving, not to supplant the availability of other funds.

Representative Damron made a motion to approve the contingency allocation for the White Hall State Historic Site. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Hintze then discussed a \$1,380,893 federally funded scope increase for the Hindman Branch of the Hazard Community College project. He said the project was approved by the 1998 General Assembly at a scope of \$3,250,000. The scope increase will allow for the inclusion of a Head Start and daycare program, as well as the Knott County Opportunity Center.

Senator Jackson made a motion to approve the scope increase for the Hindman Branch of the Hazard Community College project. The motion was seconded by Senator Buford and passed by voice vote. The revised project scope is \$4,630,893.

Mr. Hintze then discussed an adjustment in federal funds for a project for the Kentucky Community and Technical System (KCTCS) Somerset Community and Somerset Technical College Academic Support-Technical Education Complex. He said they had previously reported to the Committee this project would receive \$8,550,000 from the U.S. Small Business Administration, but the federal grant was cut and the actual amount received is \$7,909,000. Mr. Hintze said the decrease in scope should not make a material change in the project. The revised project scope is \$18,992,000.

Representative Damron asked what changes had been made to the project to adjust for the \$641,000 decrease in project scope. Mr. Gary Grogan, Executive Director of Facilities Management, KCTCS, said they had only done preliminary planning before they received notification of the funding cut, so no specific changes could be identified.

Mr. Hintze reported two allocations from the State-Owned Dam Repair Pool. He said \$2,260,000 will be used to repair the Bullock Pen Lake Dam in Grant County, and \$2,560,000 will be used to repair the Greenbo Lake Dam in Greenup County.

In response to a question from Senator Jackson, Mr. Hintze said although they have to coordinate and work closely with the local governments on state-owned dam repairs, he was not aware of any required local approval process.

Mr. Hintze then reported a \$100,000 scope increase for the Knott County Arts and Crafts Foundation Board Artisan Support and Marketing Center, based on the architect's cost estimate. Mr. Hintze said this project was authorized in the 1998 Surplus Expenditure Plan at a scope of \$1,000,000. The scope increase will be funded from a portion of Coal Severance funds originally authorized by the 1998 General Assembly for operating the Center.

Senator Jackson made a motion to approve the scope increase for the Knott County Artisan Support and Marketing Center. The motion was seconded by Senator Buford and passed by voice vote. The new project scope is \$1,100,000.

Mr. Hintze then distributed a list of 721 community development projects approved by the 2000 General Assembly. He said his office has been working with several other offices to compile descriptions of the projects, which will be published and made available for electronic access.

Representative Marcotte asked when bonds will be issued for the projects. Mr. Hintze said the bonds will be issued in different series. He said once the cash-draw requirements of the projects are determined, they will schedule the financing, either through anticipation notes or long-term bonds.

Chairman Haydon introduced Mr. Jim Abbott, Director, Division of Real Properties, to discuss the lease reports. Mr. Abbott reported a new state lease for the Cabinet for Families and Children (PR-4460 - Pulaski County). He said a new facility will be built to house two existing leased properties to alleviate overcrowding and add additional staff. Once the facility is ready, the two existing leases will be cancelled. The new lease has an annual cost of \$183,083.

Representative Damron noted that this new facility is being constructed under House Bill 704 enacted by the 1998 General Assembly, which allows new construction to be considered in the lease procurement process. Mr. Abbott said the Division has executed approximately 12 contracts which involve new construction. He said for this particular lease proposal, two of the three bidders were offering new construction.

In response to another question from Representative Damron, Mr. Abbott said that by allowing new construction, the state is saving approximately \$1 per square foot for a 20,000 sq. ft. building. He said this process is working better than he expected since he originally did not think new construction could compete with existing facilities. However, he noted the cost to renovate older buildings can be expensive. Representative Damron asked Mr. Abbott to let him know if anything in the HB 704 legislation needs to be refined.

Senator Buford made a motion to approve the new lease for the Cabinet for Families and Children. The motion was seconded by Representative Damron and passed by voice vote.

Mr. Abbott next reported two lease modifications for state leases in Franklin County. He said the Office of the Attorney General (PR-3799) plans to renovate and convert its file room into office space at a cost of \$5,330, and the Revenue Cabinet (PR-3882) plans to install additional electric outlets to accommodate additional file servers at a cost of \$8,490. Mr. Abbott said this work for the Revenue Cabinet is not associated with the Revenue Cabinet's technology project discussed earlier. The cost of these modifications will be amortized over the remaining term of each agency's lease.

Chairman Haydon said no action was required for the lease modifications since they were less than \$50,000.

Next, Mr. Roger Recktenwald, Executive Director for the Kentucky Infrastructure Authority (KIA), presented two new KIA projects. He first discussed a Fund A loan in the amount of \$1,119,846, for the city of Midway. Proceeds of the loan will be used to construct a new wastewater treatment plant.

Mr. Recktenwald then discussed a Fund B1 grant for \$650,000, for Horton Camp located at Green River State Park. Proceeds will be used to provide water and wastewater connection to the city of Campbellsville.

Senator Buford made a motion to approve the KIA Fund A loan. The motion was seconded by Representative Marcotte and passed by voice vote. Chairman Haydon said no action was required on the Fund B1 grant since it was a line-item project in the recently enacted budget.

Chairman Haydon then called on Mr. Tom Howard, Office of Financial Management. Mr. Howard first reported two approval letters for previously approved bond issues: Kentucky Housing Corporation Housing Revenue Bonds, 2000 Series A, B, and C, and D, for \$128,400,000, and Eastern Kentucky University Housing System Revenue Bonds, Series M, for \$3,000,000.

Chairman Haydon said no action was required for the follow-up reports.

Mr. Howard reported six new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Bell County; Berea Ind. (Madison Co.); Franklin County; Green County; Jackson Ind. (Breathitt Co.); and Jefferson County. Also submitted for the Committee's approval was a previously approved SFCC bond issue for Eminence Ind. (Henry Co.) with an increase in the proposed issue amount.

Representative Marcotte made a motion to approve the school bond issues with SFCC debt service participation. The motion was seconded by Senator Buford and passed by voice vote. Representative Damron abstained from the vote, citing a potential conflict of interest.

Chairman Haydon said there were eight locally funded school bond issues submitted to the Committee for review this month: Boyle County; Carroll County; Erlanger-Elsmere Ind. (Kenton Co.); Hart County; Jefferson County; Kentucky Interlocal School Transportation Association; Oldham County; and Science Hill Ind. (Pulaski Co.). He said all disclosure information has been filed and no further action on these bond issues is required.

Chairman Haydon said the Committee's next meeting is tentatively scheduled for Thursday, July 13, 2000, at 1:00 p.m. in Room 129 of the Annex.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded by Representative Marcotte and passed by voice vote. The meeting adjourned at 2:40 p.m.